

CHAPTER I

INTRODUCTION

1.1 Background

In 2019, the Covid-19 outbreak occurred and it easily spread to various countries, including Indonesia, which began to have pandemic status at the end of 2020 (Ciotti et al., 2020). With the onset of the pandemic, the Indonesian economy became unstable. Apart from that, Covid-19 has also hampered the economic activities and operations of companies in Indonesia. This situation affects the company's sustainability and exposes the company to an uncertain situation. Reporting from CNBC Indonesia, there are at least three groups of Badan Usaha Milik Negara (BUMN) that were most impacted by the Covid-19 outbreak, namely the energy, tourism, and infrastructure sectors, said Deputy Minister of BUMN II, Kartika Wirjoatmodjo at the 2020 Capital Market Summit & Expo which was held virtually on Tuesday, 10 October 2020. One of the BUMN in the tourism industry that has been impacted by Covid-19 is PT Garuda Indonesia Tbk (GIAA). One of them relates to the financial standing of PT GIAA, which at the time was dealing with a USD 1.9 billion equity deficit brought on by the Covid-19 pandemic. This was followed by travel restrictions that significantly reduced air travel and affected the business's operations and liquidity (Ramadhani, 2021).

The adverse impact on the operations and liquidity of PT Garuda Indonesia Tbk (GIAA) directly affects its ability to fulfill its obligations. As stated in the IDX information disclosure on Friday, 16/7/2021, Prasetio, the Director of Finance and Risk Management at Garuda Indonesia, wrote that while the company has taken the necessary steps to be able to carry out the management plan, some things have not

yet been implemented, everything was realized (Ramadhani, 2021). Because of this, the auditor was unable to gather adequate and relevant audit evidence to back up the belief that PT Garuda Indonesia's management plans could be implemented in the time frame the auditor needed to finish the audit. Because the significance of the realization of certain matters greatly influences the implementation and effectiveness of management plans, our auditor provided a disclaimer opinion, written by Prasetio, quoted in the IDX information disclosure (Ramadhani, 2021).

A publicly traded corporation must have financial reports that are audited annually by an external auditor at a specific public accounting firm and publish them. The accountability of management (agent) to the company owner (principal) can be reviewed through financial reports. Financial reports are financial information resulting from the accounting process (Martani, 2016). The company's financial reporting will serve as the foundation for decisions made by other parties. Therefore, financial reports must have two characteristics, namely being fair and reliable. However, in reality, achieving these two characteristics is difficult to measure. If there are financial statement frauds, there may be conflicts of interest between external and internal businesses. The function of an external auditor is necessary to settle issues that arise between the two parties in order to overcome this disagreement.

An auditor must be objective and independent in auditing financial reports so that the quality of the company's financial reports increases. A company will feel comfortable with a long audit engagement period. However, this can cause the auditor to become emotionally attached and threaten the auditor's independence. The competence of the auditor to produce an audit opinion free from outside

influence can be safeguarded by auditor independence. Independence improves the auditor's capacity to behave impartially, uphold his integrity, and retain a professional skepticism mindset (Institut Akuntan Publik Indonesia, 2013).

To overcome the problem of long engagements between client companies and audit firms (KAP), the government issued regulations limiting the length of audit engagements. Limiting the audit engagement period can be done by conducting auditor switching. The effect of conducting auditor switching is to increase auditor independence and improve audit quality (Blouin et al., 2007).

Article 11 paragraph (1) of Peraturan Pemerintah Republik Indonesia Number 20 of 2015 about "Praktik Akuntan Publik" sets down the restrictions on audit services in the country. The aforementioned clause stipulates that a public accountant is limited to providing audit services on historical financial information about an entity for a maximum of five (5) consecutive financial years. If the public accountant fails to provide audit services for two (2) consecutive financial years, they may resume providing audit services on the entity's historical financial information as per paragraph 1. With Peraturan Pemerintah (PP) Number 20 of 2015, it is possible for a company to be audited continuously throughout its life by a Kantor Akuntan Publik (KAP) if the KAP has 2 or more public accountants because it will only move between public accountants, so only the public accountant is required to sign the auditor's report alternately every five years.

Accounting scandals in recent years have demonstrated the devastating implications of audit failures in society, as well as the formation of a crisis of public confidence in public accountants. The public places the spotlight on public accountants because the public feels that public accountants have conspired to

distort information in the interests of a small group of people, while damaging the interests of many other people. Changes in public accounting firms are frequently handled by Indonesian enterprises.

In 2019, there was also an instance of auditor switching at PT Garuda Indonesia Tbk (GIAA). According to okezone.com, the 2018 financial report's results marked a net profit of USD 809.85 thousand, or roughly Rp 11.33 billion. Compared to 2017, this amount rose significantly, with a USD 216.5 million loss. This financial report sparked controversy because it was deemed not to be in accordance with the Pernyataan Standar Akuntansi Keuangan (PSAK). The rationale is that Garuda Indonesia incorporates the earnings of PT. Mahata Aero Teknologi, which owes the airline money for unpaid WiFi installation. Mahata declared a debt of USD 239 million to Garuda by signing the agreement, and Garuda recorded it in the income column of the 2018 Financial Report. This collaboration, which was signed on October 31 2018, recorded income still in the form of receivables amounting to USD 239,940,000 from Mahata. Of this amount, USD 28 million is the profit sharing that Mahata should have paid. In 2018, the Ministry of Finance conducted an investigation into KAP Tanubrata Sutanto Fahmi Bambang & Rekan (Member of BDO International), who serves as Garuda's auditor. The investigation was prompted by the KAP's claim that the audit did not comply with accounting standards, and as a result, the license was suspended for a year. Meanwhile, Garuda was given sanctions by the Otoritas Jasa Keuangan (OJK) in the form of a fine of IDR 100 million and each director was also required to pay IDR 100 million. Apart from that, BEI also imposed sanctions on Garuda, namely a fine of IDR 250 million (Giri Hartomo, 2019)

Before hiring KAP Tanubrata Sutanto Fahmi Bambang & Partners, it is known that PT. Garuda Indonesia Tbk was audited by KAP Satrio Bing Eny & Partners, which is associated with one of the major four international auditors, Deloitte, from 2014 to 2017. Then, once the situation came to light in 2019, PT Garuda Indonesia—affiliated with one of the Big Four international auditors, PWC—replaced its KAP with KAP Tanudiredja, Wibisana, Rintis & Partners. PT Garuda Indonesia decided to move auditors from KAP Satrio Bing Eny & Partners to a non-big four KAP, KAP Tanubrata Sutanto Fahmi Bambang & Partners, in 2018 in an effort to hide the fraud. The organization's management is also worried about too many KAP modifications and is searching for auditors who can work together to falsify financial reports.

It is normal for a company to use the same KAP for a period of 5 years because it complies with the rules set by the ministry of finance, but it is not reasonable for a company to change KAP based on the company's own decision. Knowing what reasons lead to voluntary auditor changes is crucial since it might cast doubt on the company's decision to change its auditors and potentially cause investors to feel negatively affected (Sima & Badera, 2018). The factors that can influence auditor switching tested in this research are management change, modified audit opinion, ownership concentration, and financial distress.

Previous studies on the subject of auditor switching by Dewi Sri Kistini and Joicenda Nahumury (2014), Ni Wayan Ari Juliantari and Ni Ketut Rasmini (2013), and Maharani Bintang Dwi Millenium and Dewi Kurnia Indrastuti (2021) found no evidence of a substantial impact on auditor switching due to management changes. However, R. Meike's research revealed additional information. In addition to

research by Juli Is Manto and Dewi Lesmana Manda (2018) and Novi Darmayanti et al. (2021) stating that management change has a significant positive effect on auditor switching, other studies by Erika Dwiyanti and Arifin Sabeni (2014), Alexandros Ngala Solo Wea and Dewi Murdiawati (2015), and I Made Bryan Dimas Permana Putra (2023) found that management change had a significant effect on auditor switching.

Apart from management change, modified audit opinion also has a significant effect on auditor switching as found in research by R. Meike Erika Dwiyanti and Arifin Sabeni (2014) and Fio Prananda Holdi and Rosmiati Tarmizi (2022). However, different results were found in the research of Ni Wayan Ari Juliantari and Ni Ketut Rasmini (2013), Alexandros Ngala Solo Wea and Dewi Murdiawati (2015), Maharani Bintang Dwi Millennium and Dewi Kurnia Indrastuti (2021), Novi Darmayanti et al. (2021), Wahyu Rizky Ramadan et al. (2022), Elva Marisa Na et al. (2022), and Galih Chandra Kirana et al. (2022) which states that modified audit opinion has no significant effect on auditor switching.

Ownership concentration is also a factor that influences auditor switching. However, research conducted by Dewi Sri Kistini and Joicenda Nahumury (2014), Niu Yongjie (2016), Maharani Bintang Dwi Millenium and Dewi Kurnia Indrastuti (2016), and I Made Bryan Dimas Permana Putra (2023) found that ownership concentration does not affect auditors. switching.

Previous research regarding financial distress as a factor influencing auditor switching was also conducted by Juli Is Manto and Dewi Lesmana Manda (2018) and Novi Darmayanti et al. (2021) who found that financial distress had a significant negative effect on auditor switching. Research was also conducted by R.

Meike Erika Dwiyanti and Arifin Sabeni (2014), Alexandros Ngala Solo Wea and Dewi Murdiawati (2015), and Elva Marisa Na et al. (2022) also found that financial distress had a significant effect on auditor switching. However, research conducted by Dewi Sri Kistani and Joicenda Nahumury (2014), Maharani Bintang Dwi Millenium and Dewi Kurnia Indrastuti (2021), and Fio Prananda Holdi and Rosmiati Tarmizi (2022) found that financial distress did not have a significant impact on auditor switching.

Given that there are groups that favor and oppose the adoption of auditor switching, the existence of differences of opinion regarding the causes that drive auditor switching in BUMN in Indonesia is an intriguing research issue. Based on several studies regarding auditor changes, it is known that several factors that influence auditor changes can originate from the client side (change of management, modified audit opinion, and concentration of ownership) and financial distress. With the Covid-19 outbreak entering Indonesia and affecting many things, it is very important to carry out research on auditor switching again to find out what factors influence auditor switching in Badan Usaha Milik Negara (BUMN) in Indonesia. Another factor that supports this research is the inconsistent results of previous studies and the existence of updates using Covid-19 as a factor that will be examined to see whether the influence of financial distress on auditor switching in Badan Usaha Milik Negara (BUMN) in Indonesia is strong or weak. The author only uses moderating variables on financial distress, because no previous research has found that Covid-19 has effect on other variables, such as ownership concentration, management change, and modified audit opinion.

Based on the explanation above, researchers are interested in examining "Factors influencing auditor switching: with Covid-19 as a moderating variable (Empirical Study on BUMN companies listed on the IDX in the 2015-2022 period)"

1.2 Problem Formulation

Based on the background explained previously, the problem formulation of this research is as follows:

1. Does management change affect auditor switching in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period?
2. Does the modified audit opinion have an effect on auditor switching in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period?
3. Does ownership concentration have an effect on auditor switching in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period?
4. Does financial distress affect auditor switching in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period?
5. Does financial distress affect auditor switching with Covid-19 as a moderating variable in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period?

1.3 Research Objectives

The objectives of this research are as follows:

1. To determine the effect of management change on auditor switching in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period.
2. To determine the effect of modified audit opinion on auditor switching in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period.
3. To determine the effect of ownership concentration on auditor switching in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period.
4. To determine the effect of financial distress on auditor switching in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period.
5. To determine the effect of financial distress on auditor switching with Covid-19 as a moderating variable in Badan Usaha Milik Negara (BUMN) listed on the IDX for the 2015-2022 period.

1.4 Benefits of Research

The expected benefits from this research are as follows:

1. For researchers, it can increase researchers' insight and knowledge in knowing the factors that influence auditor switching, especially in Badan Usaha Milik Negara (BUMN) listed on the Indonesia Stock Exchange (IDX) in 2015-2022.

2. For auditors, it can be used as material for assessing auditor performance in improving audit quality and auditor competency.
3. For academics, it is hoped that this research will provide views, insights and empirical test results as well as become a reference to complete the development of further research regarding auditor switching.

1.5 Writing Systematics

There are five chapters in the writing systematics of this thesis. An introduction is given in Chapter 1. It includes an explanation of the topic's history, which highlights the significance of performing research, as well as information on problem formulation, research aims, research benefits, and systematic writing. The theoretical foundation is covered in Chapter 2 and includes definitions, categories, and fundamental concepts as well as prior research, the formulation of hypotheses, and a conceptual framework. The third chapter provides an explanation of research methodology, including the scope of the study, sample selection techniques, operational definitions, variable measures, and data analysis approaches.

The research results and discussion are explained in Chapter 4. This chapter includes results interpretation, data analysis, and explanations of the research objects. The conclusion chapter, which covers the findings, advantages of the study, and recommendations, is chapter five.